

To the Company Secretary:

National Grid Electricity System Operator Limited
Company Number: 11014226

DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO NATIONAL GRID ELECTRICITY SYSTEM OPERATOR LIMITED UNDER THE SPECIAL CONDITIONS OF ITS ELECTRICITY TRANSMISSION LICENCE IN RESPECT OF THE ANNUAL ITERATION PROCESS FOR THE RIIO-ET1 PRICE CONTROL FINANCIAL MODEL

WHEREAS

1. National Grid Electricity System Operator Limited ('the licensee') is the holder of an electricity transmission licence ('the licence') granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. For the purposes of these directions:
 - (a) the expression 'Relevant Year t' has the same meaning as in Special Condition 1A (Definitions and Interpretation) of the licence, and references to Relevant Year t-1 are to be construed accordingly; and
 - (b) Relevant Year t is the Relevant Year that commences on 1 April 2020 and ends on 31 March 2021 ('Relevant Year 2020/21').
3. Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model) requires the Gas and Electricity Markets Authority to:
 - (a) carry out the Annual Iteration Process for the ET1 Price Control Financial Model (as each of those terms is defined in Special Condition 1A); and
 - (b) direct the value of the term SOMOD for Relevant Year t, for the purposes of the formulae that are specified in Special Condition 4A (Restriction of System Operator Internal Revenue);
by 30 November in Relevant Year t-1.
4. The following Special Conditions provide for the Authority to direct revised PCFM Variable Values (as defined in Special Condition 1A) for the licensee for the purpose of the Annual Iteration Process for the ET1 Price Control Financial Model that forms part of Special Condition 5A of the licence:
 - (a) Special Condition 7A (Legacy price control adjustments – System Operator) in respect of SOLAR (and its component term values SOCAR and SOOIR) and SOLRAV (and its component term value SOCRAV);
 - (b) Special Condition 7B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator) in respect of SOANC and SOACO values;
 - (c) Special Condition 7C (Specified financial adjustments – System Operator) in respect of SOEDE, SOAPFE, SOTTE, and SOTGIE and SOCDE values;
 - (d) Special Condition 7D (Arrangements for the recovery of SO uncertain costs) in respect of SOIAEEPS and SOEMRES values;
5. Each of the Special Conditions referred to in paragraph 4:
 - (a) sets out the basis on which any revisions to relevant PCFM Variable Values are to be determined; and
 - (b) where applicable, specifies the price control financial methodology in accordance with which revisions to the relevant PCFM Variable Value(s) are to be determined and the chapter of the ET1 Price Control Financial Handbook containing that methodology.
6. The reason for these directions is to revise PCFM Variable Values as used in the Annual Iteration Process for the ET1 Price Control Financial Model. The Annual Iteration Process is used to calculate values for the term SOMOD that is used in the formulae set out in Special Condition 4A (Restriction of System Operator Internal Revenue).
7. In accordance with the requirements set out in the Special Conditions referred to in paragraph 4, on 11 November 2019 the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 30 November in Relevant Year t-1 and specified that any representations concerning the proposed values should be made within fourteen days of receiving the notice.
8. The Authority received no representations.

NOW the Authority pursuant to the provisions of the Special Conditions referred to in paragraphs 3 and 4, **HEREBY DIRECTS** that:

- the PCFM Variable Values and component term values referred to in paragraph 4 are to be revised as shown in Schedule 1 to these directions; and
- the term SOMOD for the licensee for Relevant Year 2020/21 is to take the value £36.3m.

Schedule 2 to these directions shows the complete PCFM Variable Values Table (as that term is defined in Special Condition 1A) including the values revised under these directions (in bold font) and the values that have not been revised under these directions.

This constitutes notice for the reasons for the Authority's decision pursuant to section 49A of the Act.

Steve McMahon



Deputy Director, Network Price Controls

Duly authorised on behalf of the Gas and Electricity Markets Authority
29 November 2019

SCHEDULE 1 TO THE AUTHORITY'S DIRECTIONS - REVISIONS TO VARIABLE VALUES (shown to 1 d.p., except SOCDE shown to 2 d.p.)

National Grid Electricity System Operator Limited				Regulatory Year Ending									
PCFM Variable Value				Special Condition	Price Base / Units	31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018	31 March 2019	31 March 2020	31 March 2021
SOCDE	Allowed percentage cost of debt	7C	Annual Real %	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	1.09%
SOANC	Actual non-operational capex	7B	£m 09/10 prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	59.3	No Revision	No Revision	No Revision
SOACO	Actual controllable opex	7B	£m 09/10 prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	107.7	No Revision	No Revision	No Revision
SOIAEEPS	Uncertain costs - enhanced security	7D	£m 09/10 prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
SOEMRES	Uncertain costs - Electricity Market Reform Enduring Solution	7D	£m 09/10 prices	No Revision	No Revision	No Revision	8.0	7.6	6.5	7.4	7.1		
SOTGIE	Tax liability - gearing/interest costs	7C	£m nominal	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
SOTTE	Tax liability - tax trigger events	7C	£m 09/10 prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
SOAPFE	Pension scheme administration and Pension Protection Fund Levy	7C	£m 09/10 prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
SOEDE	Pension Scheme Established Deficit	7C	£m 09/10 prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
SOLAR	Legacy price control adjustments to allowed revenue	7A	£m 09/10 prices	No Revision									
SOLRAV	Legacy price control adjustments to RAV	7A	£m 09/10 prices	No Revision									

National Grid Electricity System Operator Limited			Financial Handbook	Price Base	31 March 2014
Incremental Legacy Adjustments used to calculate SOLAR					
SOCAR	Capex incentive scheme adjustments (SO)	Chapter 15	£m 09/10 Prices		0.1
SOOIR	Internal cost incentive (SO)	Chapter 15	£m 09/10 Prices		15.6
Incremental Legacy Adjustments used to calculate SOLRAV					
SOCRAV	Capex incentive scheme adjustments (SO)	Chapter 15	£m 09/10 Prices		2.9

SCHEDULE 2 TO THE AUTHORITY'S DIRECTIONS - VARIABLE VALUE TABLE

Variable Name	Special Condition	Price Base / Units	Term	Regulatory Year Ending								
				31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018	31 March 2019	31 March 2020	31 March 2021	
Allowed percentage cost of debt	7C	Annual Real %	SOCDE	2.92%	2.72%	2.55%	2.38%	2.22%	1.91%	1.58%	1.09%	
Actual non-operational capex	7B	£m 09/10 prices	SOANC	32.2	34.4	33.4	45.0	48.7	59.3	-	-	
Actual controllable opex	7B	£m 09/10 prices	SOACO	82.0	79.3	82.4	87.2	93.1	107.7	-	-	
Uncertain costs - enhanced security	7D	£m 09/10 prices	SOIAEEPS	12.6	-	3.2	4.7	10.5	21.5	13.9	10.7	
Uncertain costs - Electricity Market Reform Enduring Solution	7D	£m 09/10 prices	SOEMRES	-	2.8	7.9	8.0	7.6	6.5	7.4	7.1	
Tax liability - gearing/interest costs	7C	£m nominal	SOTGIE	-	-	-	-	-	-	-	-	
Tax liability - tax trigger events	7C	£m 09/10 prices	SOTTE	-	-	-	-	-	-	-	-	
Pension scheme administration and Pension Protection Fund Levy	7C	£m 09/10 prices	SOAPFE	0.5	0.4	0.4	0.5	0.4	0.4	0.5	0.4	
Pension Scheme Established Deficit	7C	£m 09/10 prices	SOEDE	8.8	8.8	9.9	9.9	9.9	8.5	8.5	8.5	
Legacy price control adjustments to allowed revenue	7A	£m 09/10 prices	SOLAR	15.7								
Legacy price control adjustments to RAV	7A	£m 09/10 prices	SOLRAV	2.9								